

**SOUTH CAROLINA
DEPARTMENT OF INSURANCE
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2019



Independent Accountant's Report On Applying Agreed-Upon Procedures

April 21, 2020

Mr. Raymond G. Farmer, Director
South Carolina Department of Insurance
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Insurance (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2019. The Department's management is responsible for the systems, processes and behaviors related to financial activity. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Department. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than \$1,000 related to reporting packages.

This report is intended solely for the information and use of the management of the South Carolina Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

South Carolina Office of the State Auditor**Agreed - Upon Procedures Related to the South Carolina Department of Insurance (R20)****Cash Receipts/Revenues**

1. Compare current year revenues at the fund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain from management an understanding of variations for the following general ledger (G/L) account: General Funds: G/L Account 4080080002 (Health Insurance Pool Credit).
2. Haphazardly select ten cash receipts transactions and inspect supporting documentation to:
 - Ensure supporting documentation for transaction agrees with the general ledger as to amount, date, payor, document number, and account classification.
 - Determine that revenues/receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the fiscal year 2019 Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
 - Determine that receipts are recorded in the proper fiscal year.

Finding

The Department recorded a receipt transaction totaling \$41,410 in the wrong fiscal year. The Department received the funds in June 2018 (fiscal year 2018) but did not post them until July 2018 (fiscal year 2019).

Management Response

We concur with the finding. We thought we were following previous guidance by the State Treasurer and Comptroller General Offices as directed in FY13 or FY14. We had attempted to follow the accounting guidelines, at that time, which are being identified as a finding now in FY19. However, we were required to reverse our accounting entries. We will adopt the guidance as issued for FY20 for year end transactions.

Cash Disbursements/Non-Payroll Expenditures

3. Compare current year non-payroll expenditures at the fund and account level to those of the prior year. Obtain from management an understanding of variations for the following G/L account: Earmarked Funds: 502 – G/L Account series (Contractual Services).
4. Haphazardly select ten non-payroll disbursements, including two disbursements from G/L account 5170800000 (Allocations Private Sector), and inspect supporting documentation to determine:
 - The transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, number, and date.
 - All supporting documents and approvals required by Department procedures are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Department.
 - The transaction is properly classified in the general ledger.
 - Disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
 - Disbursements are recorded in the proper fiscal year.
 - Clerical accuracy / confirm proper sales/use tax.

Cash Disbursements/Non-Payroll Expenditures (Continued)

5. Haphazardly select five purchasing card transactions from the Office of the Comptroller General's (CG) listing of purchasing card transactions for fiscal year 2019 and inspect supporting documentation to determine:
 - The cardholder is an authorized user and individual credit limits have been properly approved in accordance with Department policies.
 - The purchase is authorized based on the cardholder's job title/position.
 - The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
 - The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

We found no exceptions as a result of these procedures.

Payroll

6. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of variations greater than 10%.
7. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of changes greater than 10% when the proportion of employer contribution to personal service expenditures also varies at a rate greater than 5% between fiscal years.
8. Haphazardly select five employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
9. Haphazardly select five employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Department's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
10. Haphazardly select five bonus pay disbursements to determine:
 - The employee does not make more than \$100,000 annually.
 - The bonuses received during the year did not exceed \$3,000.
 - The payment amount agreed to supporting documentation and the bonus was given for the proper reason in accordance with Department policy.
 - The bonus pay was approved by the appropriate supervisor.

We found no exceptions as a result of these procedures.

Journal Entries and Transfers

11. Haphazardly select four journal entries and one transfer for the fiscal year to:
 - Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction is properly approved.
 - Inspect supporting documentation to confirm the purpose of the transaction.

We found no exceptions as a result of the procedure.

Reporting Packages

12. Obtain copies of fiscal year end reporting packages submitted to the CG. Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were submitted by the due date established by the CG's reporting package instructions.
13. In addition to the procedure above, perform the following:
 - Tax Revenue Reporting Package

Determine if amounts agree to Department prepared reports/spreadsheets.
 - Other Receivables Reporting Package

Determine if reported amounts are accurate based on inspection of the South Carolina Enterprise Information System (SCEIS) general ledger, the SCEIS Yearend Rptg - Accounts Receivable Current with Customer report and/or Department prepared records. In addition, haphazardly select five transactions to determine if they were properly classified, calculated and reported.
 - Capital Assets Reporting Package

Determine if responses and reported amounts are reasonable/accurate based on inspection of the SCEIS general ledger, the SCEIS Asset History Sheet and/or Department prepared records.
 - Operating Leases Reporting Package

Determine if amounts agree to the SCEIS general ledger, the SCEIS Yearend Rptg Operating Lease Expense with Vendor report and/or Department prepared records. In addition, based on inspection of invoices and lease agreements, determine if rental payments were properly classified, coded and calculated by inspecting and recalculating the following reported amounts: (1) One haphazardly selected payment for each vendor included in the remaining rental payment classifications (One time or unusual in nature rental payments and maintenance and service contracts); and (2) The periodic minimum payment, current expense, and future minimum lease payments for five haphazardly selected leases. In addition, confirm that the Department submitted copies of all leases to the CG in accordance with the CG's Reporting Package Instructions.

Reporting Packages (Continued)

- Subsequent Events Questionnaire

Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Department prepared records.

Findings

Timely Submission of Reporting Packages – The Master Reporting Checklist was submitted one day after the due date established by the CG.

Tax Revenue Reporting Package – The Department overstated the amount reported on the Deferred Tax Revenues Summary Form (Form 3.02.3) by \$39,716.

Operating Leases Reporting Package – The Department incorrectly reported \$4,885 of contingent rental expenditures as other detailed rental charges on the Operating Leases Summary Form – Lessee. In addition, the Department overstated periodic minimum payments and future minimum lease payments by \$1,213 and \$2,426, respectively, on the Operating Leases Future Minimum Payment Schedule.

Management's Response

Timely Submission of Reporting Packages - We concur with the finding. This was sent the Monday following the previous Friday's deadline.

Tax Revenue Reporting Package - We concur with the finding. The updated analysis of advanced amounts for the Sept 1st payment due date (2nd Qtr-Apr thru June) paid by companies prior to July 1st in excess of their estimates was not reflected on the closing package prior to submission.

Operating Leases Reporting Package - We concur with the finding. We will classify these as Contingent Rentals instead of Other Detailed Rental Charges beginning with the FY20 reporting package.

Assets and Personal Property

14. Select all (two) capital asset acquisitions and inspect supporting documentation, the SCEIS general ledger and the SCEIS Asset History Sheet to determine that each asset was properly capitalized and posted to the general ledger as to amount and account and assigned the proper useful life in accordance with the CG's Reporting Policies and Procedures Manual.
15. For the four intangible capital assets retired during the fiscal year, document the method and reason for retirement and determine that the assets were properly removed from the Department's books/general ledger in accordance with the CG's Reporting Policies and Procedures Manual.
16. Confirm that an inventory of Department property, excluding expendables, was completed during the fiscal year as required by South Carolina Code of Law 10-1-140.

We found no exceptions as a result of these procedures.

Credit Card System

17. Obtain the Department's year-end reconciliation of the credit card system to SCEIS and determine if it was performed timely and properly documented and if reconciling differences were adequately explained and properly resolved.

We found no exceptions as a result of the procedure.

Volkswagen Settlement

18. Through inquiry with management, document the status of the State's Beneficiary Mitigation Plan regarding the use of funds from the Volkswagen Environmental Mitigation Trust.

We found no exceptions and no other matters related to our engagement as a result of the procedure.

Additional Provisos

19. Confirm that the Department submitted to the State Human Affairs Commission employment and filled vacancy data by race and sex by October thirty-first of the fiscal year in accordance with Proviso 117.13 of the fiscal year 2019 Appropriation Act.

We found no exceptions as a result of the procedure.

Status of Prior Findings

20. Through inquiry and inspection, determine if the Department has taken appropriate corrective action on the findings reported during the engagement for the prior fiscal year.

We determined the Department took corrective on the finding regarding the credit card system. We observed similar findings regarding Timely Submission of Reporting Packages and the Operating Leases Reporting Package. See findings at **Reporting Packages**.